

The Effect of Leverage and Sales Growth On Profit Management with Good Corporate Governance as A Moderation Variable

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ABSTRACT: *The purpose of this study is to discover: (1) The Effect of Leverage on Profit management; and (2) The Effect of Sales Growth on Profit management. (3) The effect of leverage on profit management with good corporate governance as a moderating variable; (4) The influence of sales growth on profit management with good corporate governance as a moderating variable. This study focused on consumer goods businesses listed on the Indonesia Stock Exchange between 2016 and 2020. Purposive sampling is employed as the sampling method, with 26 companies serving as the research sample. The panel data regression model with the Common Effect Model (CEM) approach is used in this study for hypothesis testing, and the Moderated Regression Analysis (MRA) model is used for evaluating the moderating variable. The Eviews application version 12 is used to analyze the data from both models. The findings indicate that leverage has a strong favorable impact on profit management. While Sales Growth has no discernible impact on Profit management. Meanwhile, while good corporate governance can moderate the impact of leverage on profit management, good corporate governance cannot moderate the impact of sales growth on profit management.*

KEYWORDS: leverage, sales growth, good corporate governance, profit management

INTRODUCTION

Today's corporate environment feels extremely competitive. Due to the fierce rivalry, every business strives to perform at the highest level in order to remain competitive. Every business's primary objective is to generate high profits. A company's chances of obtaining funding from creditors and investors are increased if it is able to make significant profits. Companies with favorable growth in their profitability will be more appealing to investors. Expectations state that the level of profit from the investment's outcomes will yield the highest return. As a result, in order to make investment decisions, creditors and investors need accounting information that may represent the performance of the organization. The Financial Report is one of the most significant information sources that is helpful to stakeholders. The final product of a number of accounting processes, financial reports are a crucial source of information when making decisions. The comprehensive report comprises notes on financial accounts, reports on changes in capital, profit and loss, statements of financial position, and cash flow reports (Indonesian

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Accounting Association, 2012).

The income statement is one area that concerns investors and other interested parties. The profit that the firm produced over a specific time period is shown in the report. Information from the income statement that is relevant to investment decision-making is presented. The primary objective of businesses is to achieve maximum profits, as these are frequently the determining factor in a company's success. As a result, management frequently tries to manipulate earnings. Profit management refers to managers' attempts to sway financial statement information with the intention of outwitting analysts who are looking to assess the state and performance of the company (Sulisyanto, 2018).

Profit management is a result of agency issues, specifically the conflicting interests between managers and business owners as a result of information asymmetry. Information asymmetry is the appearance of a disparity between the principal and the agent's informational holdings, where the agent has more information than the principal. The connection between shareholders and managers is described by agency theory. This theory comprises a theory that explains how an agency relationship develops when the principal hires an agent to perform services and then gives the agent the power to make decisions (Jensen & Meckling, 1976). The primary tenet of this theory is that there must be a working relationship between the agents, in this case, managers and principals or stockholders.

Accrual activities can be used to control earnings. When using the accrual method, transactions and other events are recorded in the accounting records and their effects are reported in the financial statements for the periods to which they pertain rather than when cash is paid or received. Accrual-basis financial statements give consumers information about future cash obligations and resources that will be used to depict future cash receipts and payments in addition to past cash receipts and payments (Indonesian Accounting Association, 2012). Utilizing the accrual component of the financial statements, technical accrual profit management is implemented. The De Angelo model, the Healy model, the Jones Model, and the modified Jones Model are only a few examples of the different methods used to measure profit management. The modified Jones model is used in research on accrual profit management. Because it can identify profit management more accurately than other models, this model is employed.

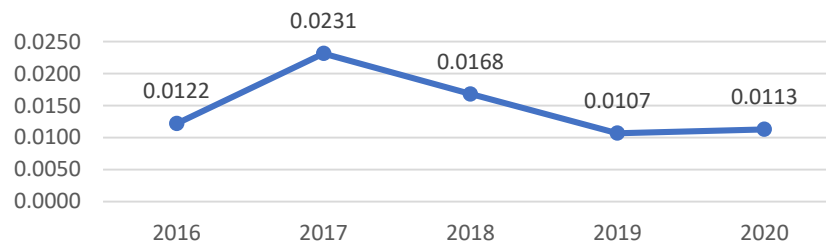
Sales growth and leverage are two variables that can impact profit management. Leverage is anticipated to have the biggest impact on profit management. Leverage is the financial policy ratio used to manage a company's long-term debt (Kasmir, 2016). the application of this ratio as a gauge of how efficiently a corporation uses its own resources, including assets, capital, and receivables. The easier it is for management to forecast the future course of the business and to utilize and select the accounting procedures they desire when compiling a financial report, the lower the leverage ratio. This is because they are not burdened by long-term debt. As a result of the large leverage that is owned, management will have less freedom to choose certain accounting techniques when creating financial reports or to set corporate policies. The Debt to Equity Ratio (DER) is the metric used to determine leverage. The debt to capital ratio compares the company's capital to its total debt. The overall amount of debt in this case

Publication of the European Centre for Research Training and Development-UK combines both short- and long-term debt. The decision to adopt DER was made because it accurately reflects the company's capacity to settle debts using its available resources.

The second variable that can affect profit management is sales growth. Sales Growth is a measure of return on investment from the prior year that can be used as a benchmark when estimating a company's future growth. Demand for products and company competitiveness within the confines of the industry drive sales growth. A company's performance to retain earnings in order to fund the business in the future may be impacted by an increase or decrease in growth (Anggarsari & Seno Aji, 2018).

There is a probability that the company won't be motivated to perform profit management if it has rapid sales growth. On the other hand, it is possible to influence a company's earnings if it faces slow sales growth. However, a company's high sales growth also provides incentive to implement profit management; this is done in order to maintain both sales and profit trends. In particular, the consumer goods business sector, which is listed on the Indonesia Stock Exchange (IDX), is the focus of this study's manufacturing companies. The industry that manufactures the needs that people consume is known as the consumer products sector.

Figure 1. Average Discretionary Accruals of Companies in the Consumer Goods Industry Sector 2016-2020



The corporation under investigation exhibits signs of earning management in its financial statements, as shown by the graph above. Sulistyanto (2018: 165) claims that the value of discretionary accruals can be zero, positive, or negative. A positive score signifies that there is a history of rising profits under Profit management. The graph demonstrates that the average value of discretionary accruals is positive and varies from year to year. A negative value indicates profit management with a pattern of decreasing profits, and a zero value for discretionary accruals indicates profit management is carried out using a pattern of income smoothing. This demonstrates how businesses in the consumer products sector frequently practice profit management by boosting revenues and income stabilization. This is done to provide the impression that the company performed well during this time in order to draw in investors.

Good corporate governance implementation is one of the crucial components that can reduce the use of profit management. Definitely A system of good corporate governance is one that governs and manages the business so that it adds value (value added) for all of its stakeholders. Audit committees and independent commissioners are effective corporate governance tools that can be utilized to prevent agency conflict (Sulistyanto, 2018). The Independent

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Commissioner is the party with the duty to promote the application of Good Corporate Governance principles within the organization by giving independent commissioners the authority they need to effectively carry out their supervisory responsibilities, counsel managers, and add more value to the business. Economic growth is expected to increase and many parties stand to gain if this idea is properly implemented, along with increased openness in corporate management. Good GCG implementation can hinder profit management efforts by ensuring that the company's core values are reflected in its financial statements.

This study uses the percentage of Independent Commissioners as its GCG indicator. Theoretically, Independent Commissioners are crucial to the execution of GCG because of their responsibilities in the areas of accountability, management oversight, and corporate strategy implementation. According to Widyaningsih (2017), appointing an independent commissioner is the best way to fulfill the supervisory role and establish a firm with good corporate governance. The presence of an impartial commissioner is anticipated to promote and foster a more objective environment where fairness will be the guiding principle when considering the interests of minority owners and other stakeholders.

According to Jensen and Meckling (1976), agency theory is a system of agreements between managers and corporations as the owners of economic resources. The agency relationship may lead to the following main issues: (1) information asymmetry, whereby management generally has more knowledge than the owner of the company's actual financial situation and operating position; and (2) the emergence of various conflicts of interest due to different goals, whereby management's actions may not always be in the owner's best interests.

Profit management is a managerial practice that involves influencing and intervening in financial statements in an effort to deceive stakeholders who are interested in learning about the performance and circumstances of the company (Sulistyanto, 2018). William R. (2015) defines profit management as an act of management that involves choosing accounting practices that adhere to specific criteria with the intention of boosting market value or corporate welfare.

Leverage, defined by Kasmir (2016) as the amount of debt a company carries in relation to its total assets, is a financial ratio used to determine what percentage of a company's assets are financed by debt. Sales growth is a forecast of how much the company's sales will rise each year, and it might inspire management to make money (Sari, 2015). Sulistyanto (2018: 134) defines good corporate governance as a system that governs and oversees a business so that it generates value (added value) for all of its stakeholders. The board of commissioners, in accordance with Hamdani (2016), is the corporate body in charge of and entrusted with overseeing and advising the Board of Directors and making sure the company implements GCG.

The amount of company debt (leverage) may have an impact on how earnings are managed. High leverage brought on by management mistakes in controlling firm finances or the deployment of unsuitable management practices. Due to the lack of oversight that results in excessive leverage, opportunistic activities like profit management will also rise in order to

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sustain its performance in the eyes of shareholders and the general public. According to research by Prawida (2021), Edison & Nugroho (2020), leverage has a favorable impact on profit management. Based on the preceding description, the following hypothesis was developed for this study: H1: Leverage has a positive impact on profit management.

For owners and potential investors, managers as business managers must send forth positive signals; these indications can be delivered by rapid sales growth. According to Edison & Nugroho (2020), high sales growth motivates profit management when faced with challenges to maintain sales and profit trends.

Sales growth has a positive impact on managing profitability, according to studies by Edison & Nugroho (2020), Turot (2019), Zakia et al. (2019), and Edison & Nugroho (2019). In light of the foregoing description, this investigation came up with the following hypothesis: H2: Sales growth has a positive impact on profit management. Due to the independent board of commissioners acting as the company's controllers and not being required to hold particular interests, the membership of the board of commissioners has an impact on minimizing profit management. organizations with high leverage, compared to organizations with little leverage, naturally have higher expectations for independent commissioners on the board of commissioners.

The findings of studies by Zakia et al. (2019) and Fatmala & Riharjo (2020) provide empirical support for the idea that good corporate governance can limit the impact of leverage on profit management. In light of the foregoing description, this investigation came up with the following hypothesis: H3: Good corporate governance can reduce the impact of leverage on managing earnings.

Companies with high profits and strong sales growth will work to keep their profits at a specific level to reassure investors. For this reason, management is driven to implement profit management in order to reduce reported profits' volatility. However, if there are more and more independent commissioners, there will be stricter oversight of financial reports and Management's manipulation of earnings can be avoided and prevented. The Independent Commissioner oversees the application of good corporate governance and makes adjustments as needed.

Good corporate governance has been shown in studies by Ermawati & Anggraini (2020) and Hemathilake & Chathurangani (2019) to be able to attenuate the impact of sales growth on profit management. The following research's formulation was made in light of the foregoing description: H4: Good corporate governance can reduce sales growth affects on profit management.

METHOD

35 consumer products businesses that were listed on the Indonesia Stock Exchange (IDX) between 2016 and 2020 make up the study's population. Using a purposive sampling technique, the samples were collected based on the following standards: firms in the consumer goods

Publication of the European Centre for Research Training and Development-UK sector that want to go public between 2016 and 2020 and issue financial reports and annual reports, Rupiah is the currency used by businesses that release financial reports, and businesses that present comprehensive data with four variables to be employed—profit management, an independent board of commissioners, sales growth, and leverage—display their data completely. Using these criteria, 26 companies can be found with a 5-year observation period, yielding 130 data.

Leverage and sales growth are the two independent variables in this study. Profit management is the dependent variable, and good corporate governance is the moderating variable. Profit management is the study's dependent variable. The modified Jones model is used in this study to measure profit management using discretionary accruals.

$$DA_{it} = \frac{TAC_{it}}{A_{it}} - NDAC_{it}$$

The dependent variable changes or emerges as a result of the independent variable, often known as the independent variable or simply the independent variable. Leverage and Sales Growth are the independent variables in this study. Good corporate governance is the moderating variable in this study. Independent commissioners' proxies are a sign of good corporate governance. To calculate the percentage of independent commissioners:

$$\text{Independent Commissioner Portion} = \frac{\text{Commissioner}}{\text{Total Commissioner}}$$

Panel data regression analysis and moderated regression analysis (MRA) were the data analysis methods used in this study. The technique of panel data regression analysis is used to simulate the impact of independent variables on the dependent variable in many businesses that are observed from a study object throughout time. Determine whether the moderating variable can increase or lessen the link between the independent variable and the dependent variable using the moderated regression analysis (MRA) test. This study's data testing method employed Eviews version 12.

This study uses secondary data, or information that has been gathered and supplied by other people. The consumer goods business sector's listed companies' annual financial reports for the years 2016 through 2020 are the source of the data. Annual financial reports are retrieved from connected corporate websites and the Indonesia Stock Exchange's official website (www.idx.co.id).

RESULTS AND DISCUSSION

According to data analysis, the Leverage variable has a minimum value of 0.16000 and a maximum value of 3.15000. has a 0.887285 mean value and a 0.612082 standard deviation. The highest number is 0.922000. has a 0.031538 mean value and a 0.200663 standard deviation. The Profit management variable, which is calculated using discretionary accruals, has a range of values between -0.173939 and 0.614754, with a mean value of 0.047891 and a standard deviation of 0.118331. The variable Good Corporate Governance, which is represented by the percentage of independent commissioners, has a minimum value of 0.33000

Publication of the European Centre for Research Training and Development-UK and a maximum value of 1.00000. has a 0.455777 mean value and a 0.155467 standard deviation.

Table 1. Descriptive Analysis

	X1	X2	Y	Z
Mean	0.887285	0.031538	0.047891	0.455777
Median	0.757000	0.049850	0.029961	0.400000
Maximum	3.150000	0.922000	0.614754	1.000000
Minimum	0.160000	-0.944700	-0.173939	0.330000
Std. Dev.	0.612082	0.200663	0.118331	0.155467
Skewness	1.149316	-1.159810	2.394105	2.005690
Kurtosis	4.393821	13.11500	11.21488	7.150756
Jarque-Bera	39.14324	583.3416	489.7271	180.4830
Probability	0.000000	0.000000	0.000000	0.000000
Sum	115.3470	4.099900	6.225804	59.25100
Sum Sq. Dev.	48.32916	5.194258	1.806300	3.117914
Observations	130	130	130	130

The Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) must all be tested using the Chow Test, Hausman Test, and LM Test before the estimated panel data regression model can be chosen.

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	91.374444	(25,101)	0.0000
Cross-section Chi-square	411.058086	25	0.0000

The Chi-Square Cross-Section Probability value was 0.000 0.05 based on the Chow Test results. then use the Fixed Effect Model (FEM) and statistically reject H0. By contrasting the output results between the Fixed Effect Model (FEM) and the Random Effect Model (REM), the Hausman test is a test used to choose a panel data regression model. The results of model estimation testing using the Hausman Test are shown in the table below:

Table 3, Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.940485	3	0.2680

Based on the results of the Hausman Test, the Cross-Section Probability value is $0.2680 > 0.05$, so that statistically accepts H0 and the appropriate approach is the Random Effect Model (REM). This test was conducted to determine the most appropriate random effect or common effect model to be used in estimating panel data. The following is a table of the results of model estimation testing with the Langrange Multiplier test:

Table 4. Langrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	216.6526 (0.0000)	2.481105 (0.1152)	219.1337 (0.0000)

The probability cross section value, determined by the results of the Langrange multiplier test, is 0.0000 0.05. then use the Random Effect Model (REM) and statistically reject H0. Therefore, it can be said that the Random Effect Model (REM) is the appropriate strategy for panel data regression. The partial test (t test) is a test used to ascertain each partially independent variable's influence. In this half test, a two-way test is used to make decisions.

Table 5. The Results of t Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.036735	0.020265	-1.812667	0.0722
X1	0.097807	0.018359	5.327338	0.0000
X2	-0.068402	0.045324	-1.509193	0.1337

The following are the results of the t test, as shown in the table above: Leverage (X1) has a coefficient value of 0.097807 and a probability t-statistic value of 0.0000 0.05, indicating that H1 is accepted and that leverage has a significant positive effect on Profit management. H2 is rejected because Sales Growth (X2) has a coefficient value of -0.068402 and a probability t-statistic value of 0.1337 > 0.05, implying that Sales Growth has no significant positive effect on Profit management. MRA is utilized for the panel data regression model equation on the moderating variable, which has a multiplicative interaction with two or more of the independent variables in the regression equation. Good corporate governance is the moderating variable in this study.

Table 6. Results of Moderated Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.161881	0.056842	-2.847904	0.0052
X1	0.277361	0.049648	5.586579	0.0000
X2	0.150476	0.143353	1.049689	0.2959
Z	0.238704	0.116472	2.049456	0.0425
X1_Z	-0.327836	0.086732	-3.779877	0.0002
X2_Z	-0.559170	0.327896	-1.705326	0.0906

It can be interpreted in the following way based on the test results in the above table: H3 is accepted and asserts that good corporate governance can reduce the impact of leverage on profit management since the interaction between good corporate governance and leverage has a probability value of 0.0002 < 0.05. H4 is rejected, indicating that good corporate governance is unable to moderate the influence of sales growth on profit management. The interaction between good corporate governance and sales growth has a probability value of 0.0906 > 0.05.

Leverage positively affects profit management, as shown by the probability value of the t-

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statistic, which is $0.0000 < 0.05$ based on the partial test findings. The majority of profit management strategies take place in heavily burdened businesses. In many debt agreements, the debtor is required to adhere to the creditor's specifications in order to keep the debt to equity ratio constant over the course of the agreement. Due to the requirement to manage the debt to equity ratio, leverage will stimulate the practice of profit management (Priharto et al., 201800).

According to studies by Prawida (2021), Edison & Nugroho (2020), leverage has a positive impact on profit management, which is in line with the findings of this study. When a company's debt to capital ratio is high, it signifies that it is not employing its resources efficiently, which forces management to manage earnings to offset the inefficient use of resources, and vice versa.

It is clear from the partial test findings that Sales Growth has no beneficial impact on Profit management because the probability value of the t-statistic is $0.1337 > 0.05$. Growth in sales has little impact on profit management. This is due to the fact that the corporation considers changes in Sales Growth to be typical occurrences in the business sector. To prevent managers from engaging in opportunistic behavior for their own gain, the principal rigorously oversees the preparation of financial reports.

The results of this study are consistent with those of studies by Fionita & Fitra (2021) and Fahmie (2018), which found no relationship between sales growth and profit management. This is so that managers are not required to boost sales or profits, and businesses are not required to inflate their performance.

Given that the probability t-statistic value for the MRA test results is $0.0002 < 0.05$, it can be said that excellent corporate governance can reduce the amount of leverage used for managing earnings. Leverage and profit management might have less of an impact each other when there is sound corporate governance. It has been demonstrated that Independent Commissioners' application of GCG can lessen the impact of debt on profit management. In a firm, having an impartial commissioner is particularly beneficial for monitoring management effectiveness. Because management will exercise greater caution when submitting financial reports under the commissioners' scrutiny, particularly those pertaining to debt reporting. The findings of this study concur with those of Zakia et al. (2019) and Fatmala & Riharjo (2020), who offer empirical support for the idea that excellent corporate governance can reduce the impact of leverage on the management of earnings. The presence of an Independent Commissioner can reduce actions taken by top management when leverage is high and profit management is being managed.

The results of the MRA test indicate that good corporate governance can not moderate influence of sales growth on profit management, as indicated by the likelihood t-statistic value of $0.0906 > 0.05$. It is impossible for good corporate governance to control how sales growth affects profit management. A company's performance is not significantly impacted by the number of independent commissioners it has. These findings also demonstrate that independent commissioners are ineffective as a GCG mechanism to address internal corporate profit management (Lindra et al., 2022). The study's findings concur with those of Indeswari (2015),

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who came to the conclusion that good corporate governance cannot offset the impact of sales growth on profit management.

CONCLUSION

The study's findings led to the conclusion that leverage significantly improves profit management, according to the results of the partial test (t test). These findings would suggest that if a corporation has a high leverage ratio, it may be able to manage its profitability by taking on debt in a large percentage relative to its capital. The findings of this study's partial test (t test) show that Sales Growth has no appreciable impact on Profit management. Growth Variations

Sales are a common occurrence for businesses. By improving the firm's strategy rather than focusing on profit management, the company is more likely to maintain a favorable trend of growth. The results of this study's Moderated Regression Analysis (MRA) test show that good corporate governance can reduce the impact of leverage on the profit management. These findings suggest that when a company has a high leverage ratio, the presence of an independent commissioner can lower the level of profit management. According to the findings of the study's Moderated Regression Analysis (MRA) test, Good Corporate Governance is unable to mitigate the impact of Sales Growth on Profit Management. As a result, it can neither improve nor diminish the association between sales growth and profit management, demonstrating that good corporate governance moderation takes the shape of a moderating predictor.

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